

AB 325 (BEALL)

EITC: WORKING FAMILIES ECONOMIC STIMULUS ACT

AS AMENDED- APRIL 14, 2009

SUMMARY

This legislation seeks to prepare the state to pull down an unclaimed \$10 billion in 100% federally-funded Earned Income Tax Credit (EITC) dollars to provide necessary funds for struggling low-to-moderate income working families and stimulate the economy. AB 325 would:

- Appoint the Department of Community Services and Development as the lead agency to coordinate California's EITC enrollment efforts .

PROBLEM

The ever worsening state of the economy has increased the number of working families trying to make ends meet. And it has exacerbated the struggle for working families that were already close to the edge. With California's unemployment rate at 10.1% it is a shame that our state is not connecting every eligible person and family with their 100% federally-funded EITC money. Only 30 percent of eligible workers know that the EITC program exists. All they have to do is apply.

SOLUTION

Appropriate a small sum of money to the organizations that staff Volunteer Income Tax Assistance (VITA) to expand their operations statewide and start getting working families to apply for their credit.

RESEARCH

According to the **Internal Revenue Service**, "If you're like millions of Americans, you work hard but you don't earn a high income, and want to keep more of what you earn." The EITC is a credit for people who earn low-to-moderate incomes. It can reduce your taxes, and can mean a refund. In simple terms, working families and individuals may keep more of what they work for.

EITC was enacted by Republican President Gerald Ford in 1975 in part to offset the burden of social security taxes and to provide an incentive to work.

Last updated: March 4, 2009

RESEARCH (CONTINUED)

Eligibility:

US Citizen

Earned income (i.e. Adjusted Gross Income) must be less than:

- \$38,646 (\$41,646 if Married Filing Jointly [MFJ]) with two or more qualifying children
- \$33,995 (\$36,995 if MFJ) with one qualifying child
- \$12,880 (\$15,880 if MFJ) with no qualifying child

2008 Tax Year Maximum credit amount:

- \$4,824 with two or more qualifying children
- \$2,917 with one qualifying child
- \$438 with no qualifying children

Investment income limit:

Must be \$2,950 or less for the year.

<http://www.irs.gov/individuals/article/0,,id=150557,00.html>

Numerous Benefits of EITC

- Benefits are 100% federally funded
- Average benefit is \$2,100
- Maximum credit is \$4,824
- Up to \$10 billion is available for Californians
- Benefits can start immediately through paycheck or be sent as refund if one owes less taxes. Refund check comes within 10 days.
- Creates State Sales and Use Tax (SUT)
- *Multiplier Effect: The Legislative Analysts Office (LAO) states that, like food stamps, the EITC has a multiplier effect on the economy of between \$1.50 and \$2.00, and will produce SUT revenues to the state.*
- EITC Success:
 - Found to produce substantial increases in employment and reductions in welfare receipt among single parents.
 - Success led to 22 other states to enact their own state EITC
 - United Kingdom introduced its own EITC and found substantial decrease in child poverty there.

- VITA sites: Free tax assistance, through Volunteer Income Tax Assistance (VITA), for people to apply for EITC through the county welfare departments and non-profits.
- IRS provides grant money to non-profits for outreach to rural and underserved populations.

Miscellaneous

A recent Brookings Institution report revealed that nearly two-thirds of EITC-eligible filers who did not claim the credit live in rural areas.

Sources:

California's First Lady Promotes EITC:
<http://www.weconnect.net/eitc.html>

Amount of Unclaimed Money:
http://www.heartland.org/custom/semof_policybot/pdf/23500.pdf (Pages: 10, 73)

EITC Data By Legislative Districts:
http://www.brookings.edu/metro/EITC/eitc_legislative_districts.aspx

Other EITC Resources:
<http://www.stateeitc.com/>

FOR MORE INFORMATION

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PRIOR OR SIMILAR LEGISLATION

American Recovery and Reinvestment Act of 2009 temporarily increases the EITC for working families with three or more children. Increased funding by \$33 billion over 10 years.

AB 1078 (Lieber), Chapter 622, Statutes of 2007 stated the Legislature's intent to maximize the ability of CalWORKs recipients to apply for and receive the EITC. This law also requires DSS to convene a workgroup to generate outreach ideas and compile them in a legislative report.

SPONSORS/SUPPORTERS

Catholic Charities of CA (co-sponsor)
 New America Foundation (co-sponsor)